

Credit Unions & SBA

A Solution to Managing Risk in
Small Business Lending

???What's the Buzz???

- Credit Unions are moving toward becoming full-service financial intermediaries.
- Small businesses have developed close relationships with credit unions based on a true commitment to service.
- SBA participation can fully complement a credit union's commercial product line.
- SBA's full-faith guaranty lessens the risk element in making a loan on a tough credit

SBA Product Line

- 7(a) Guaranteed Loan program
- Certified Development Company (504) program
- SBA MicroEnterprise Lending program

7(a) Loan Program

- Guaranty percentage: 50-85.0%.
- Includes Regular, PLP and SBA*Express*.
- Centralized processing for all loans in Jan. 2007.
- Maturities of up to 25 years in some cases.
- Variable pricing over prime.

Your Forms, SBA's Guaranty

SBAExpress

Loans of up to \$350,000 with a 50.0% guaranty.

Credit union can use its own forms and its own credit evaluation method.

Loan maturity based on the nature of the financing up to 7 years.

Pricing can range from 4.5-6.5% *over prime*.

504 Project Financings

Combination financing of fixed asset projects.

Credit unions hold first mortgage interest for no more than 50% of project.

SBA Certified Development Company provides subordinate financing which is then sold with SBA guarantee into public market.

Small concern provides residual equity funding.

MicroEnterprise Loan Program

- SBA lends to finance intermediaries committed to small loans to microenterprises.
- Intermediaries complement microloan with technical assistance support.
- Not-for-profit requirement allows for credit union participation.

Credit Union Participation in 7(a)

- A. Application includes commercial credit policies, legal filings, recent call report data, and NCUA insurance certificate.
- B. Focus is on capabilities of lender to operate commercial loan practice.
- C. CUSOs and other service providers may be engaged but must be under contract – provisions on sufficient management oversight and controls should be in loan policies – must be eligible separate from service provider - cannot buy qualifications.

Process Steps

District Office filing

Headquarters Review and Final
Approval

?What Can Create Delays?

What Next Once We're In?

SBA Lender Training of Staff

Identify Lead Sourcing Channels

Does Our “No” Really Mean “No”?

Current Topics of Interest

SBA Loan Reporting Requirements

Loan Participations

When does SBA “participate”?

Document, document, document

How Can You Succeed?

A. Contact your SBA District Office

1. Will become acquainted with Finance personnel.
2. Source for SBA lender training and recruitment.
3. SBA's eyes and ears to the local small business community.

Information sources for SBA lending

- 1.Small Business Act of 1953, as amended.
- 2.SBA Regulations: **13 C.F.R. Part 120.**
- 3.Standard Operating Procedures(SOP)

Loan Processing: SOP 50 10 04

Loan Servicing: SOP 50 50 02

Loan Liquidation: SOP 50 51 02

All are accessible through SBA's website
library

<http://www.sba.gov/lib/library.html>

NCUA Final MBL Rulemaking

October 2004

- Amended MBL Rule to be better aligned with SBA programs
- SBA programs conducive to CU participation and compliance
- SBA programs ideally suited to CU mission
- Use of less restrictive loan requirements
- Exemption from more restrictive collateral and security requirements

MBL and SBA Program Due Diligence

- What are our MBL-related mission & goals?
- Do we have qualified, experienced staff?
- What are the potential and the desired financial impacts?
- Can we adequately segregate, track, and monitor the loans?
- Do we have the operational and internal control structure to ensure loans are serviced properly?

What will our Examiner review?

- Strategic Planning and Due Diligence Process
- Staff Experience
- MBL policies and procedures
- Underwriting
- Monitoring and Servicing
- Internal Control Systems
- Financial and Strategic Impact

Mistakes to Avoid

- Loan growth focused
- Lack of experience
- Cash Flow vs. Financial Position
- Appraisal Review
- Property or Collateral Inspection
- Lack of Ongoing Monitoring
- No Contingency Plan

Please Stand By

We are currently experiencing
technical difficulties.